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March 12, 2021

VIA ELECTRONIC FILING
Adam Teitzman, Commission Clerk
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20210015-EI
Petition by FPL for Base Rate Increase and Rate Unification

Dear Mr. Teitzman:

Attached for filing on behalf of Florida Power & Light Company ("FPL") in the above-referenced docket are the Direct Testimony and Exhibits of FPL witness Sam Forrest.

Please let me know if you should have any questions regarding this submission.

(Document 11 of 69)

Sincerely,

R. Wade Litchfield
Vice President & General Counsel
Florida Power & Light Company

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF SAM FORREST

DOCKET NO. 20210015-EI

MARCH 12, 2021

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Sam Forrest. My business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company ("FPL" or "the Company") as Vice President of the Energy Marketing and Trading ("EMT") Business Unit.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for the overall direction and management of the EMT Business Unit, which handles FPL's short-term and long-term fuel management and operations. These fuels include natural gas, residual and distillate fuel oils, and coal. Additionally, EMT is responsible for FPL's long-term fuel transportation and storage contracts, power origination activities and short-term power trading, and operations. EMT is an active participant in the short-term and long-term natural gas markets throughout the Southeastern United States.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Science in Electrical Engineering from Texas A&M University and a Master of Business Administration from the University of Houston. Prior to being named Vice President of EMT for FPL in 2007, I was employed by Constellation Energy Commodities Group as Vice President, Origination. In this capacity, I was responsible for managing a team of power originators marketing structured electric power products in Texas, the Western

United States, and Canada. Prior to my responsibilities in the West, I was responsible for Constellation's business development activities in the Southeast U.S.

Before joining Constellation, from 2001 to 2004, I held a variety of energy marketing and trading management positions at Duke Energy North America ("DENA"). Prior to DENA, I was employed by Entergy Power Marketing Corp. ("EPMC") in several positions of increasing responsibility, including Vice President, Power Marketing following EPMC's entry into a joint venture with Koch Energy Trading.

Prior to my entry into the energy sector, I was involved with a successful start-up organization in the automotive industry from 1996 to 1998. From 1987 to 1996, I worked for AlliedSignal Aerospace at the Johnson Space Center in Houston, Texas, in increasing roles of responsibility.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- SAF-1 Incentive Mechanism Comparison for Period 2013-2020
- SAF-2 Proposed New Total Gains Schedule

Q. Are you sponsoring or co-sponsoring any consolidated Minimum Filing Requirements ("MFRs") in this case?

A. No.

Q. Are you sponsoring or co-sponsoring any schedules in "Supplement 1 – FPL Standalone Information in MFR Format" and "Supplement 2 – Gulf Standalone Information in MFR Format"?

A. No.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and support FPL's request to extend the current incentive mechanism that was originally approved by Order No. PSC-13-0023-S-EI, dated January 14, 2013, in Docket No. 120015-EI (the "Incentive Mechanism") and approved for continuation, with certain modifications, by Order No. PSC-16-0560-AS-EI, dated December 15, 2016, in Docket No. 160021-EI. I will provide: (i) a description of the Incentive Mechanism under which FPL operates, including a review of the results since its inception; (ii) specifics of FPL's request to update the variable power plant Operation and Maintenance ("O&M") rate; (iii) details of FPL's request to continue the Incentive Mechanism as currently structured; and, (iv) an overview of ongoing optimization costs. In addition, I will explain the rationale behind FPL's decision to retire its ownership share in Scherer Unit 4 and provide support for the overall value of the transaction for FPL's customers. Lastly, my testimony will describe the benefits that all customers will derive from the joint dispatch of the consolidated FPL and former Gulf Power Company ("Gulf") systems.

Q. Please summarize your testimony.

A. The Incentive Mechanism that was approved as part of FPL's 2012 Rate Settlement and subsequently extended through the end of 2021 as part of FPL's 2016 Rate Settlement, was designed to expand opportunities for FPL to create gains on short-term wholesale power transactions (economy sales and economy purchases) and optimize the availability and utilization of other assets. The purpose of the Incentive Mechanism was to provide increased value for FPL's customers while also providing an incentive to FPL if certain customer-value thresholds were achieved. It absolutely has worked as intended and designed. Customers have benefitted from the expanded focus on asset optimization and the incentives have proven appropriate to FPL.

FPL proposes that the Commission approve the Incentive Mechanism as an ongoing program independent of future base rate proceedings and, following the four-year term of FPL's base rate request, to move review of the mechanism to the annual Fuel and Purchased Power Cost Recovery Clause ("Fuel Clause") proceeding. This will allow the establishment of an appropriate set of incentives for a four-year period commencing 2022 and an opportunity to review and adjust the mechanism in the subsequent Fuel Clause proceeding without regard to the timing of the next base rate proceeding. FPL's proposal, including adjustments to the current incentive levels requested in this proceeding, will help ensure that the Incentive Mechanism remains a successful program going forward as FPL continues identifying and acting upon opportunities for gains that create substantial value for customers.

FPL is always looking for ways to bring value to its customers and its partners. As FPL has continued to modernize its fleet with efficient natural gas plants and an increased focus on solar, the legacy coal plants on its system have become increasingly more expensive by comparison. Both the short-term economic dispatch costs, as well as the ongoing capital projects and O&M obligations, have made coal plants one of FPL's key areas of focus from a cost reduction perspective. FPL approached JEA regarding a potential shutdown of Scherer Unit 4. Through negotiations, FPL and JEA reached an agreement to retire their respective shares of Scherer Unit 4. This agreement will result in significant value for FPL's customers. The details and other components of the Scherer retirement request are provided in the testimonies of FPL witnesses Bores and Fuentes.

Numerous FPL witnesses detail the significant economic benefits that come from the consolidation of the FPL and Gulf systems into one system. Many of these benefits are made possible through the economic dispatch of the consolidated generation system such that the most efficient (or least cost) generating facilities are run to serve the combined load, taking into consideration any limitations or constraints that may exist. By utilizing more efficient units to serve customers, wherever located, there are significant savings to be achieved.

Finally, the fuel forecasts used for the long-term analyses in this case are appropriate. Utilizing third party sources, FPL has provided a forecast for natural gas, coal, and oil that is consistent with the approach it has taken for more than a decade.

II. BACKGROUND ON THE INCENTIVE MECHANISM

Q. What were the circumstances that led FPL to propose the Incentive Mechanism?

A. Prior to the 2012 Rate Settlement, FPL operated under the Commission's standard sharing mechanism for gains on economy sales ("Prior Mechanism"). The designed sharing by FPL occurred if gains on economy power sales exceeded the three prior year average of gains on sales. While the Prior Mechanism provided an incentive for creating gains for customers, for FPL's circumstances it proved overly narrow and restrictive in two important respects. First, it only applied to economy *sales*. There are market conditions that provide substantial opportunities to create customer gains from economy *purchases* as well. Second, the Prior Mechanism did not address the opportunities to create gains from optimizing the use of other utility assets, such as natural gas transportation and gas storage rights. Accordingly, as part of the

2012 Rate Settlement, FPL proposed to substitute the more broadly-based Incentive Mechanism in place of the Prior Mechanism. The Commission approved the Incentive Mechanism as "a four-year pilot program" as a part of the 2012 Rate Settlement. The initial pilot was extremely successful, providing substantial customer value. The Commission then authorized FPL to continue the Incentive Mechanism for the term of the 2016 Rate Settlement, subject to certain modifications to maintain the program's success. The Incentive Mechanism is currently set to expire at the end of 2021 with the adoption of new base rates in 2022.

Q. Please describe the modifications that were made to the Incentive Mechanism in FPL's 2016 rate case and approved by Order No. PSC-16-0560-AS-EI.

A. There were two specific modifications made to the Incentive Mechanism in FPL's 2016 Rate Settlement. First, the sharing threshold was reduced from $46 million to $40 million. The sharing intervals and percentages remained unchanged from the original Incentive Mechanism.

The second modification made to the Incentive Mechanism involved variable power plant O&M costs. Under the original Incentive Mechanism, FPL was allowed to recover variable power plant O&M costs incurred to make wholesale sales above 514,000 MWh (the level of wholesale sales that were assumed in forecasting FPL's 2013 Test Year power plant O&M costs reflected in the MFRs filed in FPL's 2012 rate case). Under the modified Incentive Mechanism, FPL nets economy sales and purchases to determine the overall impact of variable power plant O&M. If FPL executes more economy sales than economy purchases, FPL recovers the net amount of variable power plant O&M incurred in that year. Conversely, if economy purchases exceed economy sales, FPL's customers receive a credit for the net variable power plant O&M that has been saved in that year. The per-MWh variable power plant O&M rate that FPL uses to calculate these costs, as identified in FPL's 2017 Test Year MFRs filed with the 2016 Rate Petition, is $0.65/MWh.

Q. Please describe the current Incentive Mechanism.

A. The Incentive Mechanism is designed to create additional value for FPL's customers while also providing an incentive to FPL to achieve certain customer-value thresholds. The Incentive Mechanism is very straightforward in that it simply adds incentives for FPL to create additional value for customers above the levels that were projected at the time the mechanism was approved. As I previously stated, FPL was authorized under the FPSC-approved 2016 Rate Settlement to continue the Incentive Mechanism. Under the current Incentive Mechanism, customers receive 100% of the gains up to the sharing threshold of $40 million. Incremental gains above $40 million are shared between FPL and customers as follows: customers receive 40% and FPL receives 60% of the incremental gains between $40 million and $100 million; and, customers receive 50% and FPL receives 50% of all incremental gains above $100 million.

FPL has created additional value by expanding economy sales into other regions beyond the Southeast, as well as adding new activities such as natural gas storage optimization, natural gas sales, capacity releases of natural gas transportation and selling rights on third-party electric transmission when they are not needed by FPL. Additionally, FPL has, on occasion, outsourced a portion of the optimization function of assets such as natural gas transportation to a third party in the form of an asset management agreement ("AMA") in exchange for being paid a premium. The revenues from such AMAs also are included under the Incentive Mechanism.

As part of the program, FPL is entitled to recover through the Fuel Clause the reasonable and prudent incremental O&M costs incurred in implementing its expanded asset optimization measures. These include the incremental personnel, software and associated hardware costs incurred by FPL (which are not included in FPL's current base rate request), as well as variable power plant O&M costs as previously described in my testimony. The symmetrical approach to recovery of or providing a credit for variable power plant O&M is a fair and straightforward approach both for customers and for FPL, as only the O&M costs actually incurred (or saved) are passed through (or credited) to customers.

III. PEFORMANCE OF THE INCENTIVE MECHANISM

Q. Overall, how has the Incentive Mechanism performed?

A. As can be seen in Exhibit SAF-1, the Incentive Mechanism has clearly worked as intended for both FPL's customers and FPL. Using the actual results of the years 2013 through 2020, after incremental O&M expenses are netted, there was a total benefit of $406.7 million from all Incentive Mechanism activities. Of this total, customers received $354.5 million and FPL received $52.2 million.

Q. Has the Incentive Mechanism yielded greater value for FPL customers?

A. Yes. FPL has been able to deliver an additional $122.6 million in benefits over the last eight years through its natural gas optimization activities that were authorized under the Incentive Mechanism as shown in Exhibit SAF-1. FPL's expanded approach under the Incentive Mechanism better facilitates our ability to capture transactions that deliver value to our customers.

IV. EXTENDING THE INCENTIVE MECHANISM

Q. Should the Incentive Mechanism be extended past the expiration of the 2016 Rate Settlement at the end of December 2021?

A. Yes. The Incentive Mechanism has worked well, and it is in the mutual best interests of FPL's customers and FPL for it to remain in effect. Accordingly, FPL proposes that the Commission approve the Incentive Mechanism as an ongoing program independent of future base rate proceedings and, following the four-year term of FPL's base rate request, to move review of the mechanism to the annual Fuel Clause proceeding. FPL's proposal, including adjustments to the current incentive levels requested in this proceeding, will help ensure that the Incentive Mechanism remains a successful program as FPL continues identifying and acting upon opportunities for gains that create substantial value for customers.

Q. If the Commission were to approve the Incentive Mechanism as requested by FPL, would the parameters remain in place on a permanent basis?

A. No. While FPL believes that the concept and structure of the Incentive Mechanism should be approved as an ongoing program, there are certain parameters included in the Incentive Mechanism that warrant review and possible adjustments on a periodic basis. These parameters include optimization activities, variable power plant O&M rates, and savings thresholds. Approval of the Incentive Mechanism would include the parameters as proposed in my testimony for a four-year period, thereafter with an opportunity to review and adjust the mechanism in the subsequent Fuel Clause proceeding without regard to the precise timing of the next base rate proceeding.

Q. After the four-year period, what forum does FPL believe is appropriate to facilitate the review and potential adjustments to these parameters?

A. FPL believes that the annual Fuel Clause proceedings are the appropriate forum to handle a review of these parameters and address whether any adjustments are warranted. All activities and results of the Incentive Mechanism reside in the Fuel Clause today. Each year, FPL files the results of its optimization activities for the prior year as part its Final True-Up Filing in the Fuel Clause. Therefore, it makes sense for all aspects of the Incentive Mechanism to fully reside in the annual Fuel Clause proceedings.

Q. How does FPL propose that the review and potential adjustment process be conducted in the Fuel Clause?

A. FPL proposes that every four years, as part of its annual Projection Filing in the Fuel Clause, FPL would include in its testimony support for whether changes to the "adjustable" parameters were warranted or not. The Incentive Mechanism "adjustable" parameters would be an issue in the docket every four years. This methodology would allow the Commission Staff and intervenors the opportunity, through the normal discovery, testimony and hearing process to fully review and weigh in on any proposed changes prior to a decision by the Commission. Ultimately, the Commission would decide at hearing every four years on approval of the "adjustable" parameters.

V. EXPANDING THE INCENTIVE MECHANISM

Q. With the consolidation of the FPL and Gulf systems, please describe the impact to the Incentive Mechanism program.

A. There will be one set of commonly owned and operated assets with the consolidation of the FPL and Gulf systems. If the Commission approves the continuation of the Incentive Mechanism, it would be applied to the consolidated FPL assets. Optimizing the consolidated assets as a single portfolio should help create more opportunities to increase value for customers.

Q. Does FPL propose to add any other forms of asset optimization beyond what is currently approved in the Incentive Mechanism program?

A. Yes. Under the current Incentive Mechanism program, FPL is authorized to optimize natural gas supply and capacity. As I explained previously, the optimization of these assets has provided and will continue to provide significant benefits to FPL's customers. However, since the Incentive Mechanism was originally implemented, FPL has and will continue to modernize its generation fleet as explained by FPL witness Broad, including the addition of cleaner, more cost-effective, and fuel-efficient generation and renewable energy sources. Further, as explained by FPL witness Valle, FPL continues to look for opportunities to reduce the Company's carbon footprint and provide reliable, cost-effective, and emission-free energy.

Therefore, FPL seeks to update the assets that may be optimized under the Incentive Mechanism program to properly reflect the modernization and transformation of FPL's generation fleet. Specifically, FPL seeks to expand the benefits of the Incentive Mechanism program by optimizing all fuel sources when it is reasonable and in the best interests of customers to do so based on the system requirements, market demand, and market price of the fuel or capacity at the time. This would allow FPL to expand optimization to include all fuel sources, including natural gas, capacity, manufactured gas, mixed gas, renewable natural gas, hydrogen gas, and other fuel sources. In addition, this will ensure that FPL can continue to optimize the availability and utilization of FPL's modern assets to provide increased value for FPL's customers. For example, as discussed in more detail by FPL witness Valle, FPL is introducing hydrogen through the "green hydrogen" fuel generation pilot at the Okeechobee Clean Energy Center ("OCEC"). This pilot will produce a supplemental, carbon-free fuel source to be used at OCEC. If FPL's proposal to expand optimization to include all fuels is approved, hydrogen produced at the facility (or future facilities) may be made available to the market and be sold at prices above the cost of production. Any value created through this process would be included in the Incentive Mechanism.

Additionally, given the significant investment in solar over the last several years, FPL has banked the Renewable Energy Credits ("REC" or "RECs") on behalf of customers. Albeit somewhat limited, RECs have value in the market, and FPL proposes to monetize the RECs as part of the Incentive Mechanism program.

VI. UPDATING THE INCENTIVE MECHANISM

Q. Is FPL proposing any changes to the savings thresholds that are defined in the current Incentive Mechanism?

A. Yes. FPL is proposing to reduce the number of savings thresholds from four to three. This proposed reduction in the savings thresholds will have no impact on how benefits are calculated and shared, but instead will help simplify the Total Gains Schedule that FPL files annually as part of its Final True-Up in the Fuel Clause. Under the current Incentive Mechanism structure, there are four thresholds defined: Threshold 1 (less than or equal to $30 million), Threshold 2 (less than or equal to $40 million), Threshold 3 (greater than $40 million and less than or equal to $100 million), and Threshold 4 (greater than $100 million). The $30 million threshold represented a baseline value of benefits that FPL believed it could achieve from short-term power sales gains and purchased power savings. Sharing only occurs if FPL is successful in delivering an additional $10 million in value through its expanded optimization activities. Therefore, customers receive 100% of the benefits up to $40 million and the $30 million threshold serves no purpose for any sharing calculations under the Incentive Mechanism.

FPL is proposing to simplify the structure by reducing the number of thresholds. FPL's proposal is to set Threshold 1 at less than or equal to $40 million as this represents the level up to which customers receive all of the benefits. Threshold

2, the level at which sharing begins, will be greater than $40 million and less than or equal to $100 million. Threshold 3, the level at which the sharing percentages change, will be greater than $100 million. An example of the proposed new Total Gains Schedule is included as Exhibit SAF-2.

Q. Does FPL believe it is appropriate to maintain the sharing threshold at $40 million?

A. Yes. FPL believes that the current sharing threshold of $40 million approved in Order No. PSC-16-0560-AS-EI is still appropriate. As discussed later in my testimony, with the consolidation of the two FPL and Gulf utility systems into one, FPL proposes to optimize the assets as one system. This will create incremental opportunities, albeit somewhat limited given the relative size of Gulf compared to FPL. At the same time, however, there are diminished opportunities on FPL's system given the proposed retirements of Manatee 1 and 2 and Scherer 4. These units have created opportunities to purchase lower cost power in the past that will no longer be available. Given the offsetting impacts of the addition of the Gulf asset and the retirements mentioned, FPL believes it is appropriate to leave the sharing threshold unchanged.

Q. Is FPL proposing a change to any other aspects of the Incentive Mechanism?

A. Yes. FPL proposes to change the per-MWh rate for variable power plant O&M based on the 2022 Test Year MFRs utilizing the same methodology that was applied to the 2017 Test Year MFRs. The updated calculation results in a decrease in the per-MWh rate, from $0.65/MWh to $0.48/MWh. This decrease is a result of FPL's success in reducing fossil fleet O&M and capital expenditures associated with operating and maintaining its fleet, as described in the testimony of FPL witness Broad.

VII. RETIREMENT OF SCHERER UNIT 4

Q. Please provide background information on FPL's ownership interest in Scherer Unit 4.

A. More than thirty years ago, in December 1990, FPL and JEA entered into an agreement ("Scherer Agreement") with Georgia Power to jointly own Plant Robert W. Scherer ("Scherer") Unit No. 4 ("Unit 4"), an 850 MW coal fired generating unit located in Macon, GA. Under the agreement, FPL agreed to own a 76.36% undivided interest in Scherer Unit 4, and JEA agreed to own a 23.64% undivided interest of that same unit. In addition to their joint ownership in Unit 4, JEA and FPL also own undivided interests in the common facilities of Units 3 and 4, as well as undivided interests in the Scherer common facilities. FPL owns 38.18% of the common facilities related to Units 3 and 4 and 19.09% of the common facilities related to Units 1-4. Additionally, both FPL and JEA maintain coal stockpiles for their own account, and each company owns a portion of the Scherer materials and spares inventory.

Q. Why has FPL decided to retire its ownership interest in Scherer 4?

A. FPL continually looks for opportunities to bring value to its customers. The modernization of FPL's fleet over the last decade, as well as the addition of solar to the FPL system, has increasingly pushed coal generation to the bottom of the dispatch stack. Ongoing capital costs and O&M obligations have rendered FPL's legacy coal plants as prime candidates for overall cost reduction efforts. In addition, because of its interest in Scherer Unit 4, FPL is obligated to make an annual transmission service payment which allows for the transmission of electricity from the unit in Georgia to the FPL balancing authority. FPL makes this payment regardless of the amount of energy FPL receives from Scherer Unit 4.

Q. Does FPL have the ability to retire its percentage ownership of Scherer Unit 4 if JEA does not also retire its share?

A. No. Without JEA's agreement to retire its share, FPL would not be relieved of its obligations under the Scherer Agreement as it relates to the operation of Unit 4. The dispatch of Unit 4 requires each owner receive its commensurate share of the output of the unit and to fulfill other obligations under the agreement. For example, when JEA exercises its option to dispatch 200 MW, FPL must also dispatch at least 200 MW in order to meet the minimum operating limit of the unit. FPL cannot eliminate this obligation without JEA agreeing to retire its share.

Q. Please summarize the discussions that led to the agreement to retire Scherer Unit 4.

A. In the early part of 2020, JEA and FPL began discussing the potential retirement. One of the concerns expressed by JEA was the ongoing bond obligations related to its Scherer ownership and JEA's need to pay off the bonds in the event of a retirement. In order to finance its ownership of Scherer Unit 4, JEA had issued and sold bulk power supply system revenue bonds pursuant to a series of amended resolutions. At the time negotiations began, there were approximately $100 million in remaining payments due on those bonds. FPL ultimately agreed to make a Consummation Payment to satisfy those obligations. Without this payment to JEA, there would be no opportunity to retire this unit and unlock the significant value of the overall transaction for FPL's customers. That value is addressed in the testimony of FPL witness Bores. The recovery of this Consummation Payment is covered in the testimony of FPL witness Fuentes.

Q. What are the projected overall benefits that FPL's customers will receive through the retirement of Scherer 4?

A. As further described in the testimony of FPL witness Bores, FPL's customers will see a thirty-year cumulative present value revenue requirement ("CPVRR") benefit of nearly $583 million as a result of this retirement.

Q. What are the next steps in the retirement process?

A. As noted in the testimony of FPL witness Bores, FPL and JEA intend to retire Scherer Unit 4 effective January 1, 2022. On September 11, 2020, both FPL and JEA provided notice to Georgia Power and the other co-owners of Scherer Units 1-3 of the plans for retirement.

Q. Will FPL have any ongoing obligations at the Scherer facility once Unit 4 is retired?

A. Yes. As mentioned earlier in my testimony, FPL owns undivided interests in the Scherer common facilities related to the operation of the plant. These facilities include such things as the rail delivery system, coal operations infrastructure, water treatment systems, site administrative buildings, and the electric distribution system of the plant. There will be ongoing costs for these common facilities. While the retirement of Unit 4 will reduce certain common facilities costs going-forward, FPL's and JEA's obligations for these common facilities are not eliminated as part of the retirement. These costs are reflected in the economic analysis and customer savings presented by FPL witness Bores.

Q. Do you have any concerns regarding the reduction in fuel diversity as a result of the retirement of Scherer 4?

A. No. Over the past two decades, FPL has taken significant strides to increase the efficiency of its system, along with reducing the emissions profile of its generating fleet. In order to achieve these benefits for customers, FPL has increased its reliance on natural gas and on solar. This increased reliance on natural gas has been met with a focus on improving the robustness of the gas delivery system. The addition of Sabal Trail Transmission, LLC and Florida Southeast Connection, LLC increased the deliverability of natural gas into and within Florida. In addition, FPL added a second natural gas storage facility to its portfolio when it signed a contract with Southern Pines Energy Center. Several upstream gas positions on the Southeast Supply Header, Gulf South Pipeline Company, LP, and Transcontinental Gas Pipe Line Company, LLC also give FPL tremendous flexibility in terms of where gas needs to be purchased and has reduced the reliance on more traditional sources of supply. Finally, FPL has installed distillate storage at the majority of its natural gas combined cycle facilities and can switch to this backup fuel when loads dictate or when there are fuel emergencies, such as in February 2021. During the third week of February, Texas and surrounding states experienced a cold weather event so significant Florida had to deal with reduced gas deliveries as producers and pipelines dealt with freezing conditions on their facilities. Due to the flexibility offered by the supply portfolio, FPL was able to continue to deliver gas to its facilities without issue and as loads increased on FPL's system, we were able to switch combustion turbines at a few of our combined cycle sites over to distillate fuel oil to work through the gas limitations. FPL was able to meet load thanks to the flexibility in the system and the robustness of the infrastructure this Commission has found prudently installed over the years.

VIII. CONSOLIDATED SYSTEM DISPATCH

Q. Please describe the dispatch opportunities for the combined fleet of generating resources.

A. There are significant economic benefits that come from being able to dispatch the consolidated FPL and Gulf systems as one system. As discussed at length in FPL witness Sim's testimony, the total value created by interconnecting the two sets of generating resources via the North Florida Resiliency Connection transmission line ("NFRC") is projected to be $677 million in CPVRR savings. This value comes from being able to dispatch generation from any part of the consolidated system such that the most efficient (or least cost) generating facilities are run to serve the combined load, taking into consideration any limitations or constraints that may exist. As mentioned in FPL witness Sim's testimony, during 2019, Gulf's fossil-fueled generating units had a system average heat rate of approximately 9,000 Btu/kWh. FPL's system average heat rate in 2019 was remarkably better at approximately 7,000 Btu/kWh.

By utilizing more efficient units to serve customers, wherever located, there are significant savings to be achieved. As an example, if you assume $3.00/MMBtu gas delivered to one part of the combined system, enabling those units to utilize 100 MW of system average energy to displace system average energy on another part of the system for one week, that is a total savings of approximately $100,000. As FPL witnesses Sim and Spoor explain in more detail, there is as much as 850 MW of transfer capability on the NFRC, providing the potential for savings for customers. The value of this potential is covered by FPL witness Sim.

IX. FUEL FORECASTING

Q. FPL witness Sim referred to long-term fuel cost forecasts that were used to support his testimony. Can you explain how those forecasts are developed?

A. Yes. FPL's fuel price forecast methodology is consistent for oil and natural gas. For oil and natural gas commodity prices, FPL's price forecast applies the following methodology:

a. For the current + 2 years (2020-2022), the methodology used the January 2020 forward curve for New York Harbor 0.7% sulfur heavy oil, WTI Crude Oil, Ultra-Low Sulfur Diesel ("ULSD") fuel oil, and Henry Hub natural gas commodity prices;

b. For the next two years (2023 and 2024), FPL used a 50/50 blend of the January 2020 forward curve and the most current projections at the time from The PIRA Energy Group;

c. For the 2025 through 2040 period, FPL used the annual projections from The PIRA Energy Group; and,

d. For the period beyond 2040, FPL used the real rate of escalation from the Energy Information Administration ("EIA"). In addition to the development of oil and natural gas commodity prices, nominal price forecasts also were prepared for oil and natural gas transportation costs. The addition of commodity and transportation forecasts resulted in delivered price forecasts.

FPL's price forecast methodology is also consistent for coal prices. Forecasted coal prices were based upon the following approach:

a. JD Energy provides regular (once every 1-2 months) short-term price forecasts (currently through 2021 issued in December 2019) for Powder River Basin ("PRB") minemouth/FOB coal;

b. JD Energy also provides a long-term price forecast through 2065 of the delivered prices of coal to Scherer. The most recent forecast was issued in September 2019;

c. The short-term delivered coal price forecast for Plant Scherer is updated with PRB minemouth/FOB coal price updates from JD Energy while keeping the long-term prices the same as the September 2019 long-term forecast; and,

d. Beyond 2065, prices are escalated at JD Energy's annual price escalation from 2064 to 2065.

The long-term fuel forecasts resulting from the application of this methodology for oil, natural gas, and coal are presented in FPL witness Sim's Exhibit SRS-5. This methodology provides a reasonable fuel price forecast for planning purposes, given the information available at the time the fuel forecast is developed.

Q. Does this conclude your direct testimony?

A. Yes.

2013-2020 Aggregate Incentive Mechanism

CATEGORY	CURRENT MECHANISM
Economy Sales Gains	$211,973,392
Variable Power Plant O&M (Economy Sales)	($16,169,074)
Economy Purchases Savings	$82,224,968
Capacity Release of Electric Transmission	$8,922,517
Natural Gas Optimization	$122,609,648
Total Optimization Benefits	**$409,561,451**
Incremental O&M Expenses (Personnel, Software, Hardware)	($3,947,454)
Variable Power Plant O&M (Economy Purchases)	$1,081,292
Total Net Incentive Mechanism Benefits	**$406,695,289**
Net Customer Share of Benefits	$354,496,741
Net FPL Share of Benefits	$52,198,548
Customer % of Benefits	87.2%
FPL % of Benefits	12.8%

TOTAL GAINS SCHEDULE
Actual for the Period of: January 20XX through December 20XX

TABLE 1

(1) Month	(2) Wholesale Sales Gains ($)	(3) Wholesale Purchases Savings ($)	(4) Asset Optimization Gains ($)	(5) Total Monthly Gains ($) (2)+(3)+(4)	(6) **Threshold 1** Gains ≤ $40M ($)	(7) **Threshold 2** $40M > Gains ≤ $100M ($)	(8) **Threshold 3** Gains > $100M ($)
January	5,250,000	0	1,250,000	6,500,000	6,500,000	0	0
February	4,000,000	0	1,250,000	5,250,000	5,250,000	0	0
March	1,750,000	100,000	1,250,000	3,100,000	3,100,000	0	0
April	1,500,000	100,000	1,250,000	2,850,000	2,850,000	0	0
May	1,750,000	100,000	1,250,000	3,100,000	3,100,000	0	0
June	1,250,000	400,000	1,250,000	2,900,000	2,900,000	0	0
July	1,250,000	300,000	1,250,000	2,800,000	2,800,000	0	0
August	1,250,000	300,000	1,250,000	2,800,000	2,800,000	0	0
September	1,000,000	400,000	1,250,000	2,650,000	2,650,000	0	0
October	1,000,000	250,000	1,250,000	2,500,000	2,500,000	0	0
November	1,250,000	50,000	1,250,000	2,550,000	2,550,000	0	0
December	1,750,000	0	1,250,000	3,000,000	3,000,000	0	0
Total	**23,000,000**	**2,000,000**	**15,000,000**	**40,000,000**	**40,000,000**	**0**	**0**

TABLE 2

(1) Month	(2) **Threshold 1** Gains ≤ $40M 100% Customer Benefit ($)	(3) **Threshold 2** $40M > Gains ≤ $100M 40% Customer Benefit ($)	(4) **Threshold 2** $40M > Gains ≤ $100M 60% FPL Benefit ($)	(5) **Threshold 3** Gains > $100M 50% Customer Benefit ($)	(6) **Threshold 3** Gains > $100M 50% FPL Benefit ($)	(7) **Total** Customer Benefits ($)	(8) **Total** FPL Benefits ($)
January	6,500,000	0	0	0	0	6,500,000	0
February	5,250,000	0	0	0	0	5,250,000	0
March	3,100,000	0	0	0	0	3,100,000	0
April	2,850,000	0	0	0	0	2,850,000	0
May	3,100,000	0	0	0	0	3,100,000	0
June	2,900,000	0	0	0	0	2,900,000	0
July	2,800,000	0	0	0	0	2,800,000	0
August	2,800,000	0	0	0	0	2,800,000	0
September	2,650,000	0	0	0	0	2,650,000	0
October	2,500,000	0	0	0	0	2,500,000	0
November	2,550,000	0	0	0	0	2,550,000	0
December	3,000,000	0	0	0	0	3,000,000	0
Total	**40,000,000**	**0**	**0**	**0**	**0**	**40,000,000**	**0**